

Fiscal Issues Report

October 13, 2009
County Executive Office

FISCAL ISSUES REPORT

- **Summary of the key financial issues that comprise the context for the County's financial status**
- **Purpose is to provide the Board the opportunity to review the issues prior to commencing the development process for the FY 2010-11 budget**
- **This is the third annual Fiscal Issues Report**
 - 16 issues (2 new issues)
 - 9 have impacts in FY 2009-10
 - 7 have potential impacts in FY 2010-11 and beyond

SIGNIFICANT FISCAL ISSUES

- **Fiscal Year 2009-2010**

- State Budget Impacts
- Indian Gaming
- Department of Social Services
- ADMHS Cost Report Settlement Issues
- Mental Health & Partner Agencies Medi-Cal Billing Exposure
- Retiree Healthcare
- May Statewide Special Election
- Cachuma Lake Surcharge
- Fire Financial Forecast (new)

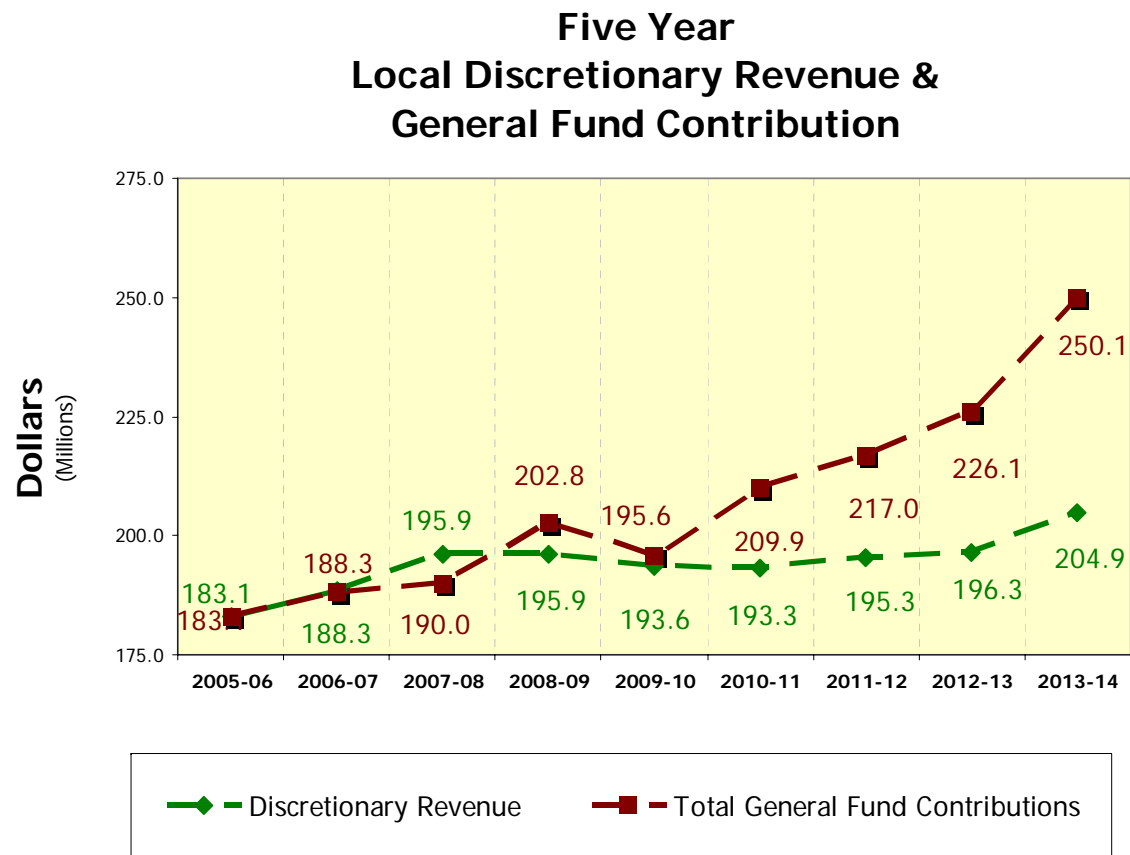
- **Fiscal Year 2010-2011 and Beyond**

- Fiscal Year 2010-2011 Budget Gap
- Pension Fund Stability
- Goleta Revenue Neutrality
- City of Santa Barbara RDA (new)
- County Jail – Northern Branch
- Maddy EMS Fund
- Goleta Beach Long Term Protection Plan

ECONOMIC OUTLOOK

- **Employers shed 263,000 jobs in September, more than analysts expected, bringing the jobless rate to 9.8 percent.**
- **A total of 15.1 million persons were unemployed in September, twice the number at the start of the recession.**
- **The so-called hidden unemployment rate, which includes those who've settled for part-time work or given up looking altogether, has hit 17 percent.**
- **Economists expect we still have months more to go of job losses. And the unemployment rate will rise for months.**
- **An economic recovery will be slower than originally hoped and employment growth will be on the tail end of any recovery**
- **Although some indications that the recession is ending on a national level, a rebound will take time in the County**
 - State budget impacts are ongoing
 - County has seen three consecutive years of flat or declining discretionary revenue growth
 - County's expenditure demands continue to grow

FIVE YEAR FINANCIAL FORECAST



STATE BUDGET IMPACTS

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	Discretionary Revenue -\$16,000,000 Categorical Revenue -\$5,500,000	Unknown
FY 2010-11	Unknown	Unknown
Thereafter	Unknown	Unknown

- **Adopted State budget**

- Borrows from local governments through suspension of Proposition 1A (-\$16M)
- Significant reductions in categorical revenues (-\$1.5M loss in County RDA funds)
- Large reductions in health and human services (-\$4M+ to Public Health, ADMHS, and DSS)

- **Potential additional mid-year reductions would have further impacts on County**

- **Financial alternatives**

- Prop 1A securitization
- Internal Service Fund borrowing
- Will be discussed at 10/13 Board hearing

INDIAN GAMING

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		-\$1,200,000
FY 2010-11		
Thereafter		

- **Indian Gaming Special Distribution Fund (SDF)**
 - Provides grants to local governments impacted by tribal gaming
 - In FY 2008-09, grants funded County a firefighter/paramedic position at Station 32 and 24/7 deputy sheriff patrol service at the casino
 - Included in Fire and Sheriff's Departments FY 2009-10 budgets
 - Not included in the State's FY 2009-10 budget
- **Restoration of funding would require passage of SB 357 and a trailer bill to be taken up at mid-year as urgency legislation**
- **Service level impacts**
 - Fire Department would either redirect funds for the fourth firefighter/paramedic position at Station 32 or reduce staffing levels at the station
 - Sheriff's Department may no longer be able to provide 24/7 service near the casino
- **Financial alternatives include soliciting financial support from other governmental agencies or redirecting Fire District and General Fund monies to replace this funding**

DEPARTMENT OF SOCIAL SERVICES

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	Unknown	Unknown
FY 2010-11	Unknown	Unknown
Thereafter	Unknown	Unknown

- **Impact of State budget on DSS remains unknown**
 - Information expected by mid-October
 - DSS anticipates funding for program administration at or slightly below last year's levels
 - Net effect on operational revenues not expected to be significant due to program mitigations, caseload growth revenue, revenue for new programs, and ARRA funds
- **Depletion of fund balances is a major concern**
 - Realignment Trust Fund expected to be fully depleted in FY 2009-10
 - Social Services Special Revenue Fund expected to be depleted in FY 2010-11
- **Cost of Doing Business withholding by the State is an ongoing concern**
 - State has a freeze on CODB at 2001 levels
 - DSS has absorbed increases in administration (salaries and benefits) and overhead
- **DSS strategies to mitigate impact of revenue loss**
 - Hiring freeze on many positions
 - Consolidate office space
 - Restructure office professional staff
 - Expand call center model

ADMHS COST REPORT SETTLEMENT ISSUES

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	-\$1,553,834	
FY 2009-10	-\$6,428,978	
Thereafter	-\$6,220,000	

- **Current audit results identify County's potential liability for FY 2002-03 through FY 2007-08 at \$12.6M**
 - County's Medicare and Medi-Cal claims are subject to audit 5 years in arrears
 - County created an Audit Exceptions designation in the FY 2008-09 budget with a budget of \$6.5M
 - If liability exceeds \$6.5M, local discretionary revenue will have to be diverted from other programs
- **May be possible to negotiate repayment plan, though no guarantee the State would agree**
- **In FY 2008-09, the County made \$1.5M in liability payments**

MENTAL HEALTH & PARTNER AGENCIES MEDI-CAL BILLING EXPOSURE

FISCAL YEAR	ONE-TIME	ONGOING
FY 2008-09	-\$2,208,334	
FY 2009-10	-\$3,470,610	
Thereafter	-\$9,134,497	

- State audit found that Medi-Cal reimbursements for the MISC program to agencies other than ADMHS are disallowed
- County's potential liability for FY 2000-01 through FY 2007-08 is estimated at \$14.4M
- In FY 2008-09, State withheld \$2.2M in current Medi-Cal payments against the liability
- General Fund monies will need to be diverted from other County programs to cover the liability
- In July 2009, the County submitted a settlement agreement to the State and is awaiting a response
- If the State does not agree to the settlement, a formal hearing is scheduled for December 2009

RETIREE HEALTHCARE BENEFITS

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		3% (Adopted) - 5.27% rate / \$8.7M (Adopted) - \$15.3M
FY 2010-11		3% - 5.27% rate / \$9.0M - \$15.8M
Thereafter		3% - 5.27% rate / \$9.4M - \$16.5M

- **County obligated to directly fund post-employment healthcare benefits beginning October 2008**
- **County initially adopted a pay-as-you-go-basis and preliminary employer contribution rate of 3% of covered payroll**
- **In FY 2008-09, this policy covered the cost of benefits; however, it will be insufficient to pay future obligations**
- **Board has options to contain future costs**
 - Commingle investments of the basic pension and 401(h) trusts
 - Adopt longer amortization period for the UAAL
 - Adopt funding policy (pay-as-you-go, partially funding the ARC, fully funding the ARC)
 - Restructure the retiree medical program
- **FY 2010-11 cost will depend on funding option selected; range of \$300K-\$7.1M increase over the FY 2009-10 adopted budget of \$8.7M**

MAY STATEWIDE SPECIAL ELECTION

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	-\$1,363,000	
FY 2010-11		
Thereafter		

- **Statewide special election took place on May 19, 2009**
- **County was required to fund the election pending State reimbursement**
- **County budgeted use of Strategic Reserve - \$1.4M**
- **FY 2009-10 State budget did not include election reimbursement**
- **Governor has stated reimbursement is forthcoming**
- **Counties are working together to seek a sponsor in the Legislature for a bill to ensure reimbursement**

CACHUMA LAKE SURCHARGE

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11	-\$500,000	
Thereafter	-\$3,600,000	

- **Federal Bureau of Reclamation is evaluating the impact of raising Cachuma Lake for the protection of the downstream habitat of the endangered steelhead trout**
- **This surcharge will impact existing improvements around the lake, including park facilities and improvements**
- **Improvements most at risk from a health and safety perspective would be the water intake facility, water treatment plant, and the sewer lift stations**
- **Impacted facilities repeatedly inundated could face total failure and pose health and safety risks from waste water or chemical spills into the lake**
- **Lack of water and sewer facilities could cause temporary or permanent closure of the park**
- **Real or perceived public threat or reduced quality of service at the lake could reduce revenue generated**
- **Potential cost to address the issue is \$12.7M**
 - \$8.6M in funding has already been identified
 - \$4.1M remains unfunded

FIRE FINANCIAL FORECAST

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-\$2,200,000
FY 2011-12		-\$3,100,000

- **Economic downturn has impacted the Fire District's financial health**
- **Expenditures are rising faster than revenues**
 - 58% expenditure growth from FY 2004-05 to FY 2013-14
 - 42% revenue growth from FY 2004-05 to FY 2013-14
- **Projected that the Fire District's fund balance will be depleted in FY 2010-11**
- **Projected negative financial impact of \$5.3M over the next two years**
 - \$2.2M shortfall in FY 2010-11
 - \$3.1M shortfall in FY 2011-12
- **Department has sustained service levels over the past few years by using Fire District fund balance to cover operational costs**
- **Possible solutions include redirecting other County monies to the Fire District and service level reductions**

FISCAL YEAR 2010-2011 BUDGET GAP

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-\$16,600,000
FY 2011-12		-\$21,600,000

- **In the past year, the County's financial condition has continued to deteriorate**
- **The revised five-year plan projects a budget shortfall of \$16.6M in FY 2010-11 and, if not addressed, growing to \$21.6M in FY 2011-12**
- **This shortfall only reflects the difference between local discretionary revenues and the GFC to departments**
 - Other General Fund revenues are also declining, including fee revenue, Realignment revenue, and Proposition 172 revenue
- **The gap between revenues and expenditures has been exacerbated by the use of one-time funding to sustain operations, creating "cliffs"**
 - Includes use of Strategic Reserve, Salaries and Benefits Designation, and sources identified by the Board at budget hearings such as use of other designation allocations
 - Several departments are funded in the current year with a significant proportion of one-time funding that will not be available next year
- **Service level reductions will be required to achieve a balanced budget in FY 2010-11**

PENSION FUND STABILITY

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		23.30% - Adopted
FY 2010-11		29.03% / \$18.6 million increase
Thereafter (FYs 2011-15)	28.92% - 35.18% / \$20 million cumulative next 4 fiscal years increase over FY 2010-11	

- **County's pension liability and related contribution costs/rates have steadily increased since the beginning of the decade. From FY 1999-00 to FY 2007-08 the County's total contribution rate increased from 12% to 23.3%.**
- **Retirement contribution is a significant portion of the County's expenditures; for FY 2008-09, the County's retirement contribution was \$70M, nearly 10% of total expenditures**
- **Rates depend on investment gains or losses of the Retirement Fund. In FY 2008-09, the fund experience a loss of \$343M, or 19%, which will require significant rate increase in FY 2010-11 and it is reasonable to expect that the losses will drive the County's pension rates up well into the beginning of the next decade**
- **The Retirement Board considered options to restructure the system. On September 23, 2009, the Board adopted a 17-year amortization period.**

GOLETA REVENUE NEUTRALITY

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		
Thereafter		-\$2,400,000

- **The mitigation period, following the incorporation of the City of Goleta, expires in FY 2012-13**
 - The County’s sales tax share will at that point drop to 30% from current 50% and TOT revenues from the City of Goleta will drop from 50% to 0%
 - The City of Goleta has also indicated a desire to reduce the 30% portion of local sales tax once the mitigation period ends
 - FY 2012-13 revenue loss estimated at \$1.1M in lost sales tax revenue and \$1.3M in lost TOT revenue
- **The County will have to identify replacement funding or implement service level reductions once the mitigation period expires**
- **The Five Year Plan incorporates the expected reduction in General Fund revenues in FY 2012-13**

CITY OF SANTA BARBARA RDA

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		
Thereafter		\$6,600,000 (FY 2018-19)*

- **City of Santa Barbara RDA has current debt issuance through 2018, at which time the tax increment apportionment would be redirected to the County**
 - Estimated at \$6.6M (\$6.1M General Fund)
- **City RDA is allowed to issue debt through 2012, in which case the County would not receive the redirected revenue until as far out as 2022**

COUNTY JAIL – NORTHERN BRANCH

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10	-\$1,550,000	
FY 2010-11	-\$2,650,000	
Thereafter	-\$3,800,000 (FY 2011-12)	-\$17,400,000 (beginning in FY 2013-14)

- **The issue of jail overcrowding has existed for over 20 years, requiring additional jail bed space; County is under a consent decree order to reduce jail overcrowding**
- **Proposed solution is a 304-bed facility in North County**
 - Architectural programming, design and utility engineering have been ongoing since late 2008
 - Construction cost is estimated at \$80.2M
 - County was awarded conditional funding of \$56.3M through the AB 900 State grant program
 - \$23.8M of construction cost is unfunded
 - \$3.3M has already been expended on purchase of land
 - Operating cost is estimated at \$17.4M at the start of operations in FY 2013-14

MADDY EMS FUND

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11		-\$760,000
Thereafter		

- The Maddy EMS Fund revenue of \$1.9M is used to compensate for unfunded emergency medical care provided by the County
- AB 1900 extended sunset date from January 1, 2009 to January 1, 2011
- However, AB 1900 eliminated nearly 70% of the current funding
- State provides for partial offset of this loss through assessment of new fines (approximately \$540K annually) until January 1, 2014
- These funding sources are tenuous, do not represent a long-term strategy, nor are sufficient to compensate hospitals and physicians for the costs of uncompensated emergency, medical, and trauma services (approximately \$8M per year needed)
- Five County hospitals will be impacted by the loss, including the only Level II Trauma Center between Los Angeles and San Jose
- Potential reduction to emergency room specialist availability (currently 24/7)
- Financial alternatives include a sales tax measure, redirecting Tobacco Settlement Funds (possible reductions in services currently funded), and use of Tobacco Settlement Endowment funds until exhausted

GOLETA BEACH LONG TERM PROTECTION PLAN

FISCAL YEAR	ONE-TIME	ONGOING
FY 2009-10		
FY 2010-11	-\$2,000,000	
Thereafter	-\$8,000,000	

- **Emergency rock revetments were placed along the Goleta Beach County Park beach area as a short-term solution to protect the beach from storm damage**
- **In January 2008, County submitted a Coastal Development Permit application with the California Coastal Commission for a permeable pier beach sand stabilization project at a total estimated cost of \$10.2M**
- **The Coastal Commission denied the application in July 2009**
- **County Parks is currently reviewing options for long term protection of Goleta Beach (“Goleta Beach 2.0”)**
- **County Parks presented Goleta Beach 2.0 to the Board at the October 6, 2009, meeting**
- **Goal is to develop one or more alternatives and bring back to the Board by Spring 2010**